

**ASSEMBLY BILL**

**No. 1250**

**Introduced by Assembly Member Florez**

February 23, 2001

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An act to add Sections 17052.14 and 23605 to the Revenue and Taxation Code, relating to energy resources, and making an appropriation therefor.

LEGISLATIVE COUNSEL'S DIGEST

AB 1250, as introduced, Florez. Energy resources: income and bank and corporation taxes: marginal wells.

Under existing law, funds in the Petroleum Violation Escrow Account, as defined in federal law, consisting of federal oil overcharge funds, have been disbursed to this state by the federal government and deposited in the Federal Trust Fund in the State Treasury, a continuously appropriated fund.

This bill would, to the extent permitted by federal law, appropriate an unspecified amount of those funds, without regard to fiscal year, to the State Energy Resources Conservation and Development Commission for the purpose of a grant to partially support the Oil and Natural Gas Technology and Information Center, to be disbursed by the Controller subject to approval by the Director of Finance as to which court judgment or federal agency order is the proper source of the funds.

The Personal Income Tax Law and the Bank and Corporation Tax Law authorize various credits against the taxes imposed by those laws.

This bill would authorize a credit, calculated under a specified formula, against those taxes for each taxable year beginning on or after January 1, 2001, for qualified crude oil and natural gas production from marginal wells, as defined. The bill would provide for the annual

adjustment of the credit formula in accordance with the inflation adjustment, if any, as set forth in a specified provision of the Internal Revenue Code.

Vote: majority. Appropriation: yes. Fiscal committee: yes. State-mandated local program: no.

*The people of the State of California do enact as follows:*

1 SECTION 1. Section 17052.14 is added to the Revenue and  
2 Taxation Code, to read:

3 17052.14. (a) For each taxable year beginning on or after  
4 January 1, 2001, there shall be allowed as a credit against the “net  
5 tax,” as defined in Section 17039, an amount, as specified in  
6 subdivision (c), for qualified crude oil production and qualified  
7 natural gas production during the taxable year.

8 (b) For purposes of this section:

9 (1) “Qualified crude oil production” means domestic crude  
10 oil, as defined under Section 613A(e) of the Internal Revenue  
11 Code, that is produced from a marginal well.

12 (2) “Qualified natural gas production” means natural gas, as  
13 defined under Section 613A(e) of the Internal Revenue Code, that  
14 is produced from a marginal well.

15 (3) “Marginal well” means a domestic well, that during the  
16 taxable year, has marginal production as defined under Section  
17 613A(c)(6) of the Internal Revenue Code.

18 (4) “Reference price” means, with respect to any calendar  
19 year, in the case of:

20 (A) Qualified crude oil production, the reference price  
21 determined under Section 29(d)(2)(C) of the Internal Revenue  
22 Code.

23 (B) Qualified natural gas production, the Secretary of the  
24 Treasury’s estimate, as computed in accordance with Section  
25 29(d)(2)(C) of the Internal Revenue Code, of the annual average  
26 wellhead price per 1,000 cubic feet of all domestic natural gas.

27 (c) The credit amount shall be computed as follows:

28 (1) (A) In the case of qualified crude oil production, the credit  
29 is three dollars (\$3) per barrel.

30 (B) This credit shall be reduced, but not below zero, by an  
31 amount that bears the same ratio to that amount as the excess, if



1 any, of the applicable reference price above fourteen dollars (\$14),  
2 bears to three dollars (\$3).

3 (2) (A) In the case of qualified natural gas production, the  
4 credit is fifty cents (\$0.50) per 1,000 cubic feet.

5 (B) This credit shall be reduced, but not below zero, by an  
6 amount that bears the same ratio to that amount to that amount as  
7 the excess, if any, of the applicable reference price above one  
8 dollar and fifty-six cents (\$1.56), bears to thirty-three cents  
9 (\$0.33).

10 (3) The applicable reference price for a taxable year is the  
11 reference price for the calendar year preceding the calendar year  
12 in which the taxable year begins.

13 (4) In the case of any taxable year beginning in a calendar year  
14 after 2001, the base credit amounts, specified in paragraphs (1) and  
15 (2) of this subdivision, shall be increased by an amount equal to the  
16 dollar amount of the credit multiplied by the inflation adjustment  
17 factor for each calendar year as determined under Section  
18 43(b)(3)(B) of the Internal Revenue Code by substituting the year  
19 1990 with the year 2001.

20 (d) (1) This credit does not apply to any otherwise qualified  
21 crude oil production or natural gas production, if during the  
22 taxable year for which the credit is claimed, the well from which  
23 these products are obtained produces in excess of 1,095 barrels or  
24 barrel equivalents.

25 (2) In the case of a short taxable year, the limitation under this  
26 subdivision shall be proportionately reduced to reflect the ratio  
27 that the number of days in the taxable year bears to 365.

28 (3) In the case of a well that is not capable of production during  
29 each day of the taxable year, the limitation under this subdivision  
30 shall be proportionately reduced to reflect the ratio that the number  
31 of days of production bears to the entire taxable year.

32 (e) In the case where the credit allowed by this section exceeds  
33 the “net tax,” the excess may be carried over to reduce the “net  
34 tax” in the following year, and succeeding years if necessary, until  
35 the credit is exhausted.

36 SEC. 2. Section 23605 is added to the Revenue and Taxation  
37 Code, to read:

38 23605. (a) For each taxable year beginning on or after  
39 January 1, 2001, there shall be allowed as a credit against the  
40 “tax,” as defined in Section 23036, an amount, as specified in

1 subdivision (c), for qualified crude oil production and qualified  
2 natural gas production during the taxable year.

3 (b) For purposes of this section:

4 (1) “Qualified crude oil production” means domestic crude  
5 oil, as defined under Section 613A(e) of the Internal Revenue  
6 Code, that is produced from a marginal well.

7 (2) “Qualified natural gas production” means natural gas, as  
8 defined under Section 613A(e) of the Internal Revenue Code, that  
9 is produced from a marginal well.

10 (3) “Marginal well” means a domestic well, that during the  
11 taxable year, has marginal production as defined under Section  
12 613A(c)(6) of the Internal Revenue Code.

13 (4) “Reference price” means, with respect to any calendar  
14 year, in the case of:

15 (A) Qualified crude oil production, the reference price  
16 determined under Section 29(d)(2)(C) of the Internal Revenue  
17 Code.

18 (B) Qualified natural gas production, the Secretary of the  
19 Treasury’s estimate, as computed in accordance with Section  
20 29(d)(2)(C) of the Internal Revenue Code, of the annual average  
21 wellhead price per 1,000 cubic feet of all domestic natural gas.

22 (c) The credit amount shall be computed as follows:

23 (1) (A) In the case of qualified crude oil production, the credit  
24 is three dollars (\$3) per barrel.

25 (B) This credit shall be reduced, but not below zero, by an  
26 amount that bears the same ratio to that amount as the excess, if  
27 any, of the applicable reference price above fourteen dollars (\$14),  
28 bears to three dollars (\$3).

29 (2) (A) In the case of qualified natural gas production, the  
30 credit is fifty cents (\$0.50) per 1,000 cubic feet.

31 (B) This credit shall be reduced, but not below zero, by an  
32 amount that bears the same ratio to that amount as the excess, if  
33 any, of the applicable reference price above one dollar and fifty-six  
34 cents (\$1.56), bears to thirty-three cents (\$0.33).

35 (3) The applicable reference price for a taxable year is the  
36 reference price for the calendar year preceding the calendar year  
37 in which the taxable year begins.

38 (4) In the case of any taxable year beginning in a calendar year  
39 after 2001, the base credit amounts specified in paragraphs (1) and  
40 (2) of this subdivision, shall be increased by an amount equal to the

1 dollar amount of the credit multiplied by the inflation adjustment  
2 factor for each calendar year as determined under Section  
3 43(b)(3)(B) of the Internal Revenue Code by substituting the year  
4 1990 with the year 2001.

5 (d) (1) This credit does not apply to any otherwise qualified  
6 crude oil production or natural gas production, if during the  
7 taxable year for which the credit is claimed, the well from which  
8 these products are obtained produces in excess of 1,095 barrels or  
9 barrel equivalents.

10 (2) In the case of a short taxable year, the limitation under this  
11 subdivision shall be proportionately reduced to reflect the ratio  
12 that the number of days in the taxable year bears to 365.

13 (3) In the case of a well that is not capable of production during  
14 each day of the taxable year the limitation under this subdivision  
15 shall be proportionately reduced to reflect the ratio that the number  
16 of days of production bears to the entire taxable year.

17 (e) In the case where the credit allowed by this section exceeds  
18 the “tax,” the excess may be carried over to reduce the “tax” in  
19 the following year, and succeeding years if necessary, until the  
20 credit is exhausted.

21 SEC. 3. (a) Notwithstanding Sections 13340 and 16361 of  
22 the Government Code, and to the extent permitted by federal law,  
23 the sum of \_\_\_\_ dollars (\$\_\_\_\_) of the money in the Federal Trust  
24 Fund, created by Section 16360 of the Government Code, received  
25 by the state from federal oil overcharge funds in the Petroleum  
26 Violation Escrow Account, as defined in Section 155 of the  
27 Further Continuing Appropriations Act of 1983 (P.L. 97-377) or  
28 other federal law, and consisting of federal oil overcharge funds  
29 available pursuant to court judgments or federal agency orders, is  
30 hereby appropriated, without regard to fiscal year, to the State  
31 Energy Resources Conservation and Development Commission  
32 for the purpose of providing a grant to partially support the  
33 Petroleum Technology Transfer Council (PTTC).

34 (b) The money appropriated pursuant to subdivision (a) shall  
35 be disbursed by the Controller, subject to the approval by the  
36 Director of Finance as to which court judgment or federal agency  
37 is the proper source of those funds.

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